

THE ECONOMIC AND POLITICAL DIMENSIONS OF THE ARAB SPRING

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Presented at the International Workshop: MENA
Transition and International Response: Challenges
and Prospects, December 2, 2011, Vienna
Institute of International Studies, Vienna, Austria.

The New Era

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- Revolutionary wave unseen since the 1950's and 60's
- Earlier revolts were by and large nationalist uprisings with underpinnings of equity and freedom
- Current revolutionary wave is marked by the Arab peoples' aspirations for political freedoms, social justice and equity
- Social and economic objectives will form the main challenges for the new regimes and the revolutionary movements in the coming years

The Great Recession

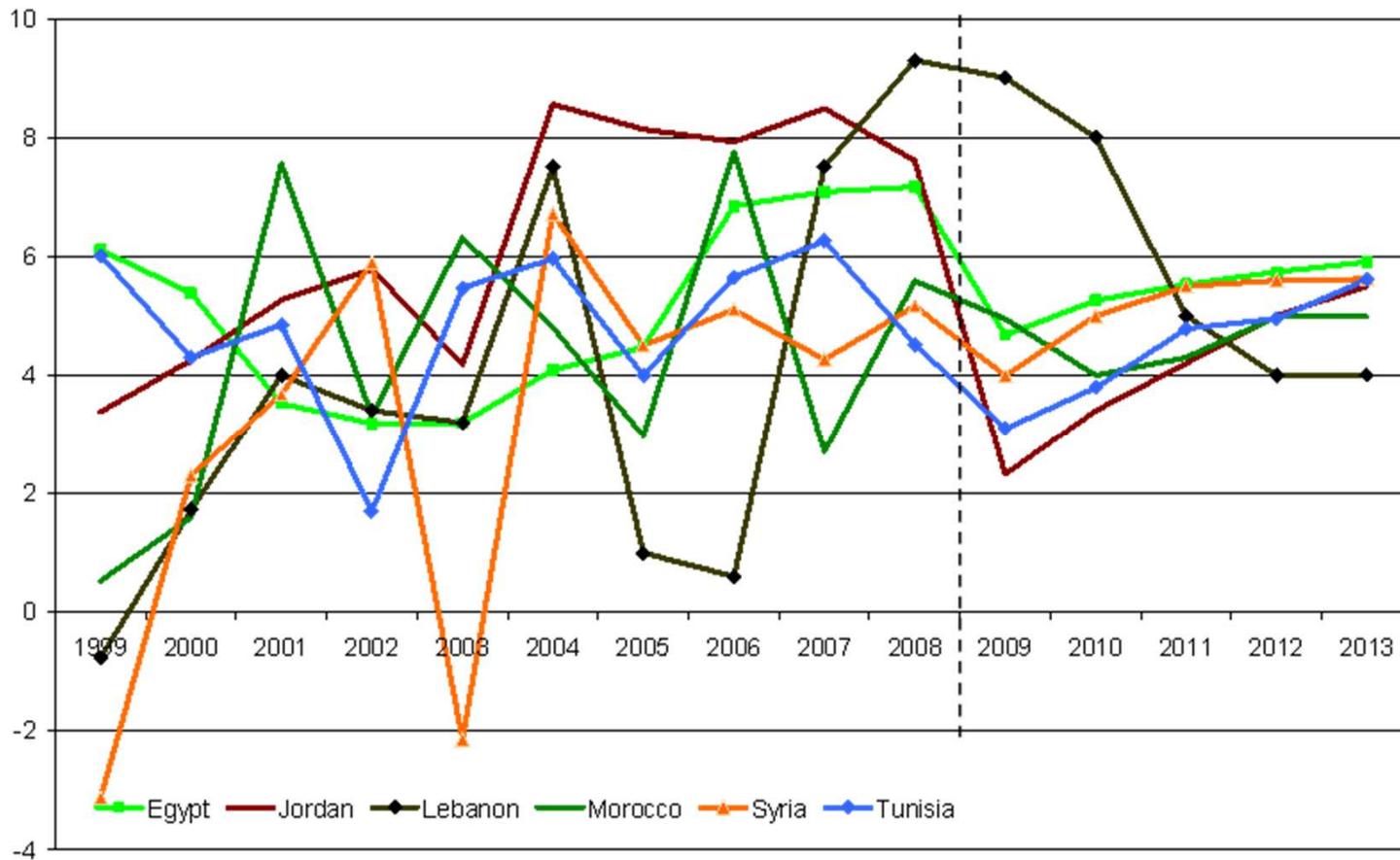


- The economic and financial crisis of 2007-2009 also known as the Great Recession has affected the Arab world albeit mildly.
- Output and aggregate demand (except exports) had positive growth rates which meant that MENA countries experienced a *growth cycle* during the crisis rather than *output contraction*.
- The crisis hit oil-exporting economies more than non-oil economies. The diversified economies experienced a decline in growth but growth remained positive for all these countries.
- However, the decline in FDI and in remittances during this period has added to the economic woes in the region in addition to the global rise in food prices that affected for example Egypt adversely.

Average Growth rates (2008-2009)

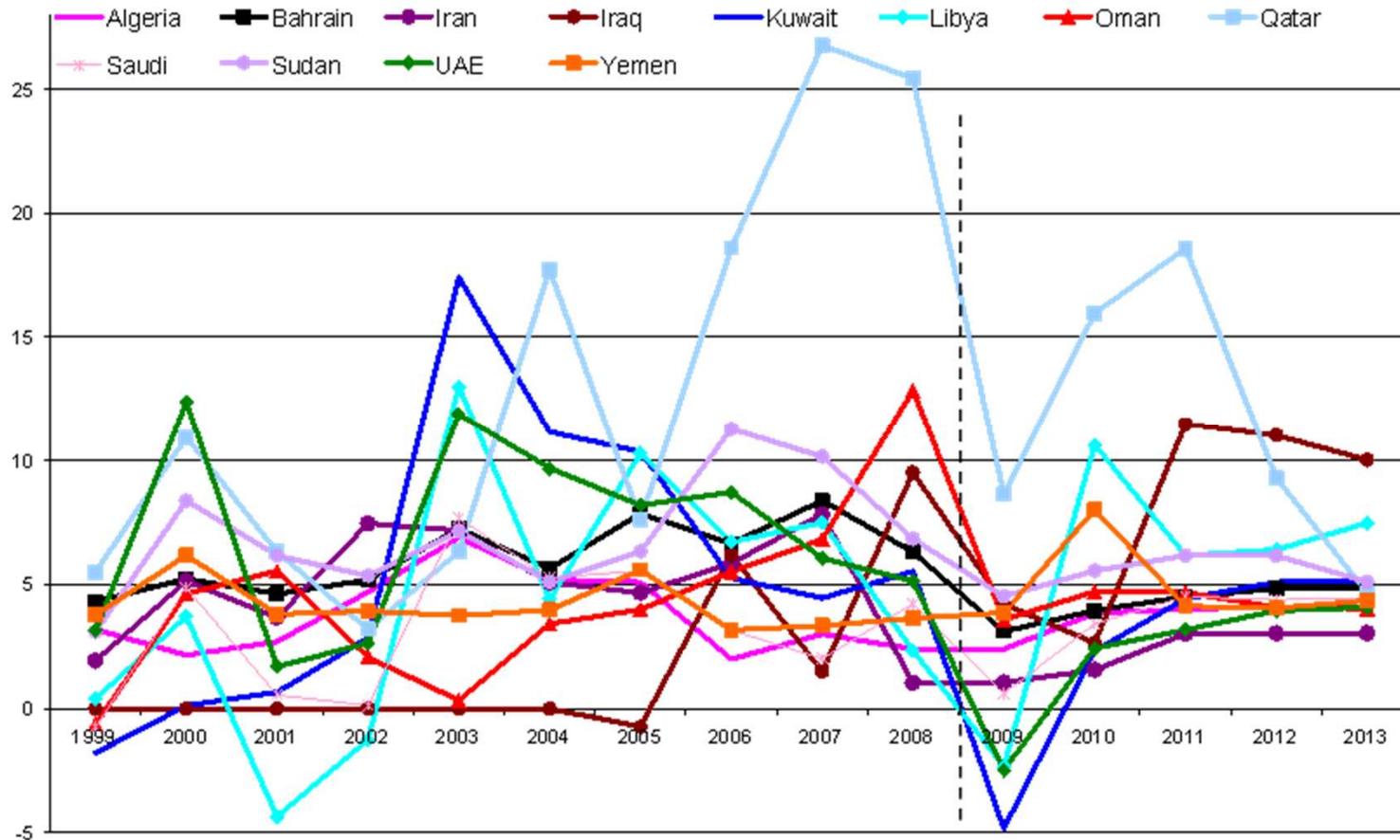
	Output	Investment	Exports
Emerging Europe	-1.3	-13.3	-3.6
Industrial Countries	-1.3	-9.6	-5.0
Caribbean	-0.7	-3.5	6.3
Western Hem.	2.3	-1.0	-0.6
Emerging Asia	3.1	-1.5	-0.9
Africa	3.5	11.6	1.9
CIS	3.6	-2.7	-0.4
Middle East	4.7	7.5	-0.4

The effects on the individual non-oil countries



Growth rates of GDP MENA diversified economies, 1999-2013

Oil exporters



Growth rates of GDP, M ENA oil exporters, 1999-2013

Challenges of Economic Development in Arab World I

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- The Arab world has been a laggard region in terms of economic development comparison with other regions in the world
- High and Persistent Unemployment
- Stagnating TFP
- Low GDP per capita growth 1980-2002 and modest increase in 2002-2010
- High Population Growth
- Unequal Distribution of Wealth amongst nations

Challenges of Economic Development in Arab World II

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- Horizontal and Vertical Inequities in Wealth and Income
- Low levels of Technological Development
- End (Degeneration) of Old Social Contract (Arab Socialism—or interventionist-redistributive state)
- State Fragility and Failure (Somalia, Iraq, Lebanon, Yemen,...)

Productivity Growth

TABLE 3.4

Growth in Output, Capital, and Total Factor Productivity, by Region

(percent per laborer)

Region	Decade	Gross domestic product	Physical capital	Human capital	Total factor productivity
East Asia and the Pacific	1960s	2.6	2.9	0.7	1.0
	1970s	3.7	6.2	0.9	0.7
	1980s	5.9	6.1	1.0	2.9
	1990s	7.0	8.4	0.7	3.2
High-income countries and Organisation for Economic Co-operation and Development	1960s	3.3	3.8	0.7	1.4
	1970s	1.5	2.2	1.5	-0.2
	1980s	1.6	1.9	0.2	0.7
	1990s	1.6	2.0	0.6	0.4
Latin America and the Caribbean	1960s	2.7	2.9	0.5	1.2
	1970s	2.9	4.0	0.6	1.0
	1980s	-1.7	0.2	0.9	-2.3
	1990s	2.7	2.9	0.5	1.2
MENA	1960s	6.0	5.4	0.7	3.4
	1970s	3.8	10.0	1.3	-1.0
	1980s	0.3	2.4	1.4	-1.5
	1990s	0.7	0.1	1.3	-0.2
South Asia	1960s	2.1	4.0	0.6	0.2
	1970s	0.6	1.9	1.0	-0.7
	1980s	3.6	3.1	0.9	1.9
	1990s	2.7	3.3	0.9	0.9
Sub-Saharan Africa	1960s	2.8	3.6	0.3	1.2
	1970s	1.4	3.2	0.3	-0.1
	1980s	-0.9	0.6	0.7	-1.6
	1990s	0.4	0.7	0.6	-0.2

Note: Regional averages weighted by average labor force over period.

Source: Nabli and Keller 2002.

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Development Challenges III

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- Arrow et al. (2004) has shown that the MENA region has actually negative rates of genuine investment (-7.09%) when accounting for natural resource depletion.
- the growth rate of per capita genuine wealth is the lowest in the world (except sub-Saharan Africa) equaling 0.74%.
- The MENA is threatened with chronic stagnation and poverty if investment rates are not increased to levels that would allow for positive genuine investment and higher per capita wealth growth.

Which Economic Reforms?

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- Economic Reforms = F(New Political Order)
- Political Order is Uncertain
- Arab People revolted for freedom, social justice and equity
- Resolution ,as reminded by Montefiore (NYT-March 26), is by answering the question posed by Lenin “Who whom?”
- Arab World needs a *development and egalitarian agenda* not a *market and growth* one in contrast with the experience of Eastern Europe during the transition period.

Current Signs I

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- In the last days of the Egyptian revolution, the trade unions and workers were instrumental in dealing the final blow to the Mubarak regime.
- the new governing military council drove a wedge between political reforms and economic reforms in the face of growing demands for wage hikes and progressive economic policies
- The Council framed these strikes as security threats and later assurances by the new prime minister that the free market economy will not be abandoned all signal to the difficulties on the road ahead.

Current Signs II

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- At the international level, there have been calls for free market reforms and the advancement of propositions that the uprising was against state-ossified economies
- Many reduced the 'economic problem' of the Arab world to one or many corrupt rulers who amassed large sums of wealth through crony capitalism or the channels provided by the degenerate old Arab socialist regimes
- Many found similarities between Arab World and Eastern Europe

Differences

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	Eastern Europe	Arab World
Immediate Economic Crisis	Yes	Yes/No
Economic Development/Industrialization	Yes	No
Inequality	No	Yes
Markets	No	Yes
Growth	No	Yes/No
Rentier Class	No	Yes
Unemployment	No	Yes
External Aid/Integration	Yes	No
Dominance of Free Market Ideas	Yes	No

Political-Economic Base for needed reforms

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Political-Economic Base for Social Market Economy in Germany	In Arab World
Economic Progress that allows the social market economy trinity (free product markets, welfare state redistribution, corporatist labor market)	No
Strong Labor Unions	No
Corporatist Labor Market	Yes/No
Welfare State	Yes/No

Political Conditions

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Political Conditions in Germany at end of WWII	Conditions in Arab World Today
Political leaders of all stripes experience unemployment and hardship of Great Depression	No
Strong labor unions with socialist convictions	No
Social and political upheavals during the interwar years	Yes/No

Against I

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- End (Degeneration) of Old Social Contract (Arab Socialism—or interventionist-redistributive state)
- 1950's-1970's: The old model ended with the Keynesian Crisis in the 1970s
- Underdevelopment of political systems (Gulf Countries,..)
- Low Capital Accumulation and labor productivity
- State Fragility and Failure (Somalia, Iraq, Lebanon, Yemen,...)
- Regional Disparities and Inequalities
- Population Growth
- Fiscal Crisis (Pension Systems, public wages,..)

Against II

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- Conflict between Structural Adjustment, Market Reforms and old social contract
- Weakness, Scarcity and/or Opportunism of Social Democratic Parties (Algeria, Egypt, Tunisia, Lebanon, Iraq, Morocco)
- Military Expenditures in MENA as % of GDP is larger than Lower Middle Income, Middle Income and Latin America
- Rise of private assistance programs

For

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- The legacy of “Arab Socialism’
- Distribution of Income in MENA is more equitable than many developing regions
- Poverty is lower compared to other developing countries
- More equity and lower poverty due to Public employment and labor migration to GCC and Europe
- Availability of Wealth to distribute it “to All”
- The current capitalist crisis

Biggest Challenge---It is the Economy

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- GDP per Capita
- Capital Accumulation
- Technological Development
- Labor Productivity

All to generate *economic surplus* to fund the redistributive and social assistance and insurance policies of the new economic model

Reforms I

- Shift in macroeconomic policy from the traditional approaches to macroeconomic stability usually restricted to inflation stability. New macroeconomic policy should be designed along the lines advocated by Sachs (2009).
- Macroeconomic objectives should include according to Sachs “three crucial and interconnected challenges: climate and energy security, food and nutrition security (including land use, water use and biodiversity), and poverty reduction.”

Reforms II

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- Public Investments and technological growth. From rentier towards productive and dynamic economies.
- New Developmental model and position in the International Economy (Brazil, BRICS...)
- Redistribution of Income and Wealth. Addressing both Horizontal and vertical inequities.
- Poverty Alleviation (transfer programs in Venezuela and Brazil). Ravallion (2009)- countries with consumption per capita over \$4000 (at 2005 PPP) require only the imposition of very low tax rates (1% on the average) to cover the poverty gap